

## MEMORANDUM

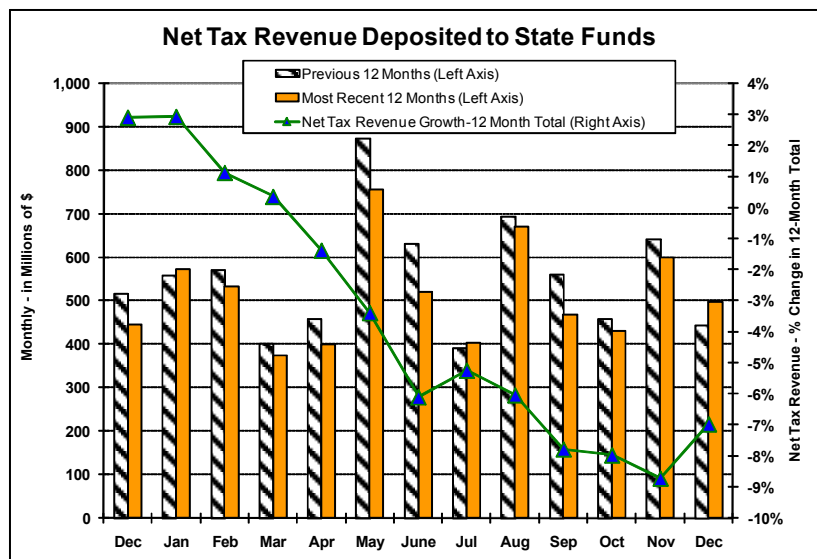
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson  
Shawn Snyder

DATE: January 12, 2010

### Twelve-month Total Net Tax Receipts Through December 31, 2009

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12-month period ending December 2009 with comparisons to the previous 12 months. December 2008 to December 2009 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Month of December Comparison

December net tax receipts totaled \$495.9 million, an increase of \$51.6 million (11.6%) compared to December 2008. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$15.3 million, 7.3%) – Gross income tax receipts increased \$20.7 million in December while income tax refunds increased \$5.4 million. Income tax estimate payments received, a component of gross income tax receipts, increased \$22.3 million in December. The increase was due to a large drop in payments processed during December 2008, the result of a delay in the processing of payments. Therefore, the December 2009 increase in gross individual income tax receipts will likely reverse significantly in January 2010. Income tax withholding payments deposited in December declined 0.7% compared to December 2008.
- Sales/Use Tax (positive \$8.4 million, 6.4%)
  - Road Use Tax Fund use tax and fees for new registrations increased \$0.8 million in December.
  - Gross General Fund sales/use tax receipts decreased \$0.9 million and refunds issued for the month decreased \$8.5 million (net increase of \$7.6 million). A change in how a portion of school infrastructure refund transfers were made in December caused those refunds to appear approximately \$6.0 million lower for the month, a situation that should reverse in January 2010.
- Corporate Income Tax (positive \$24.8 million, 450.9%) – A large volume of corporate tax refunds were issued in December 2008 while a more normal amount was issued this December. Gross receipts decreased \$1.2 million and refunds decreased \$26.0 million.
- Fuel Tax (positive \$1.8 million, 4.5%) – Gross fuel tax revenue increased \$3.9 million while refunds processed in the month increased \$2.1 million. Deposit timing issues impacted December 2009 fuel tax receipts and reversed a large drop the previous month.
- Cigarette & Tobacco Taxes (positive \$0.3 million, 1.5%)
- Gambling Tax (negative \$1.3 million, - 5.2%) – Total adjusted gross revenue for Iowa's 17 State-regulated gambling facilities decreased 4.7% in December 2009, compared to December 2008, and gambling tax revenue growth has now been negative for nine consecutive months.

### **Year-over-Year Comparison – Net Tax Revenue**

During the 12-month period ending December 2009, net revenue from all taxes deposited to State funds totaled \$6.218 billion, a decrease of \$465.9 million (- 7.0%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$186.7 million, - 6.5%) – The rate of individual income tax receipt growth has decreased significantly since peaking in May 2008 at 11.8% year-over-year. The processing of tax year 2008 tax returns during the spring of 2009 accelerated the decrease.
- Sales/Use Tax (negative \$139.5 million, - 6.2%) – Net sales/use tax receipts have been down 10 the past 13 months compared to the same month the previous year and the annual percent growth has fallen from positive 6.0% at the end of October 2008 to negative 6.2% at the end of December 2009.
- Corporate Tax (negative \$67.8 million, - 22.5%) – Net corporate income tax totaled \$233.2 million for the 12 months ending December 2009. The 12-month total peaked in

June 2008 at \$371.9 million, so net corporate tax revenue is 37.3% below the latest peak. During and after the 2001 recession, net corporate tax receipts fell 68.8%, peak to trough.

- Fuel Tax (positive \$1.9 million, 0.4%) – Net motor fuel tax revenue has been weak the past twelve months, likely the result of decreased economic activity caused by the recession. According to Department of Revenue fuel sales reports, over the most recent 12-month period Iowa taxable gasoline/ethanol gallons sold increased 1.4% while taxable diesel sales were down 8.1%, the fourteenth consecutive month showing a decline in annual taxable diesel sales.
- Gambling Tax (negative \$7.4 million, - 2.5%) – Despite expansions of casinos in Clinton and Dubuque, two changes providing boosts to year-over-year gambling growth in Iowa; gambling tax revenue is negative over the past 12 months. According to Racing and Gaming Commission statistics, ten of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending December 2009. The AGR growth for all facilities was negative 2.7% over the past 12 months. Excluding the two expanded facilities, growth was negative 5.2%.
- Cigarette and Tobacco Tax (negative \$23.4 million, - 9.3%) – Economic conditions, Iowa's indoor smoking ban, and a recent increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- Insurance Premium Tax (negative \$29.2 million, - 27.0%) – The decline in insurance premium tax revenue is the result of expanded use of tax credits, including credits earned through an insurance company's own activities as well as tax credits purchased from others.

### **Tax Spotlight – Other Taxes**

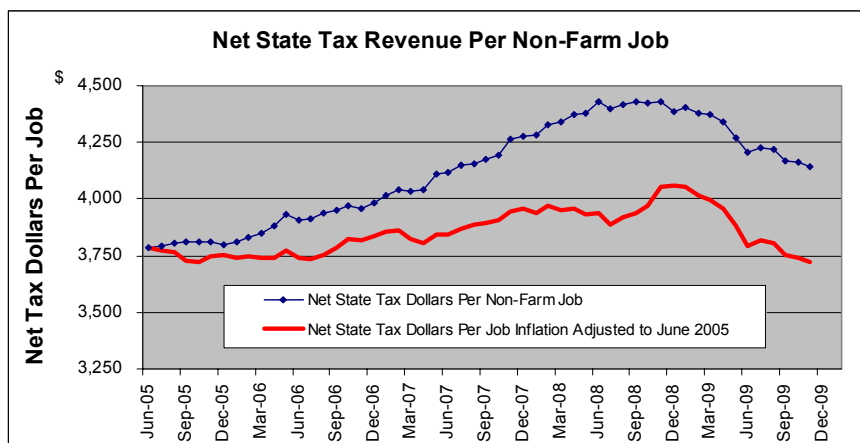
The "Other Tax" category includes the following net tax collections:

- Brucellosis Eradication Property Tax – This statewide property tax is administered under the authority of Section 165.18, Code of Iowa. The Secretary of Agriculture sets a property tax rate not to exceed \$0.3375 per \$1,000 of taxable valuation to cover expenses estimated to be paid through the Brucellosis and Tuberculosis Eradication Fund for the following fiscal year. For FY 2010, the property tax rate was \$0.0030 per \$1,000. Funds received from the tax are credited to the Brucellosis and Tuberculosis Eradication Fund. The tax raised \$433,000 over the most recent 12-month period.
- Drug Stamp Tax – This excise tax is administered by the Department of Revenue under the authority of Chapter 453B, Code of Iowa. The tax is imposed on dealers of marijuana and other controlled substances. Rates range from \$5.00 per gram of marijuana to \$750 for each unprocessed marijuana plant. Funds received from the Drug Stamp Tax are deposited to the General Fund. The tax raised \$171,000 over the most recent 12-month period.
- Utility Replacement Property Tax – This statewide property tax is administered under the authority of Section 437A.18, Code of Iowa. The tax rate is established at \$0.03 per \$1,000 of taxable utility company property valuation in the State. Funds generated from this property tax are deposited in the General Fund. The tax raised \$256,000 over the most recent 12-month period.

- **Property Tax Relief Fund** – Under certain circumstances, utility replacement property tax may be deposited to the Property Tax Relief Fund created in Chapter 426B, Code of Iowa for distribution to counties. During the most recent 12-month period, \$1.2 million in tax was deposited to the Fund.
- **Car Rental Tax** – This excise tax is administered by the Department of Revenue under the authority of Chapter 423C, Code of Iowa. The tax rate of 5.0% is imposed on the rental price of an automobile. Funds received from the car rental tax are credited to the Statutory Allocations Fund. The tax raised \$4.5 million over the most recent 12-month period.
- **Tax Gap Program** – The Department of Revenue transfers tax revenue on a monthly basis to fund the tax collection activities of the Tax Gap Program. The Tax Gap Program is a Department initiative designed to improve tax compliance through utilization of technology. A total of \$5.5 million in tax revenue was deposited to the Tax Gap Program over the most recent 12-month period.
- **Department of Revenue Operating Appropriation Transfers** – Each month the Department of Revenue transfers tax revenue out of the State General Fund and deposits the money to the Department's operations account. The money is used in the operations budget to fund collections (FY 2009 = \$7.7 million) and streamlined sales tax activities (FY 2009 = \$0.5 million). Although the money is withdrawn as tax receipts, the Department does not redeposit the money as tax revenue, instead depositing the money as "intrastate transfers." During FY 2009 these transactions artificially reduced reported State tax receipts by a total of \$8.2 million.

## Tax Revenue and Employment

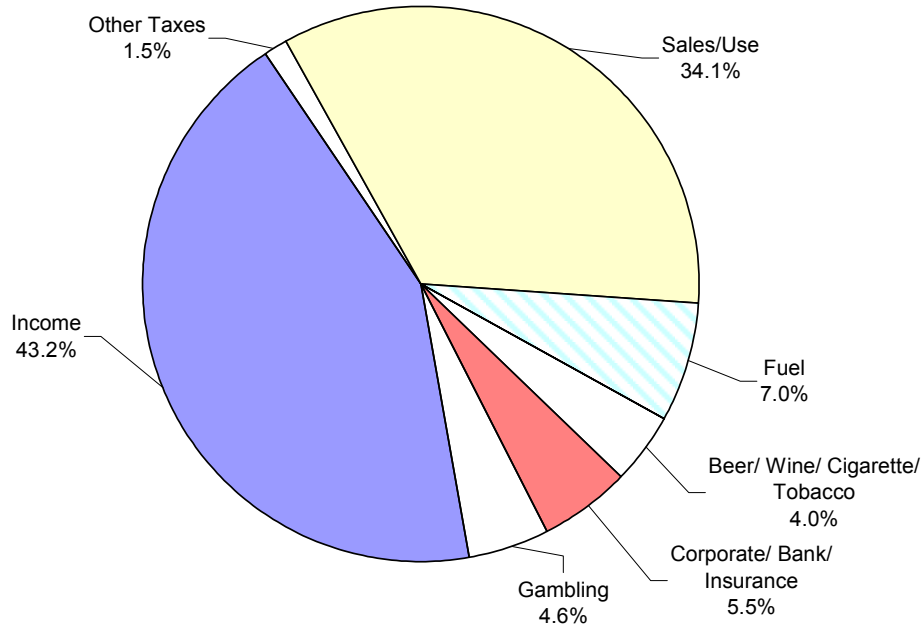
The average reading for Iowa non-farm employment over the 12 months ending November 2009 is 1,488,700, and net State tax receipts over the same 12 months totaled \$6.167 billion, or \$4,142 per non-farm job. This is \$357 (9.4%) higher than the per-job average for July 2005. Over that same time period, inflation (CPI-U) increased 11.2%. Therefore, tax revenue per job has trailed the rate of inflation since July 2005 by roughly 0.4% per year. The following chart provides a historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



## Net State Tax Revenue - Twelve Months Ending December 2009

**Net Revenue = \$6.218 Billion**

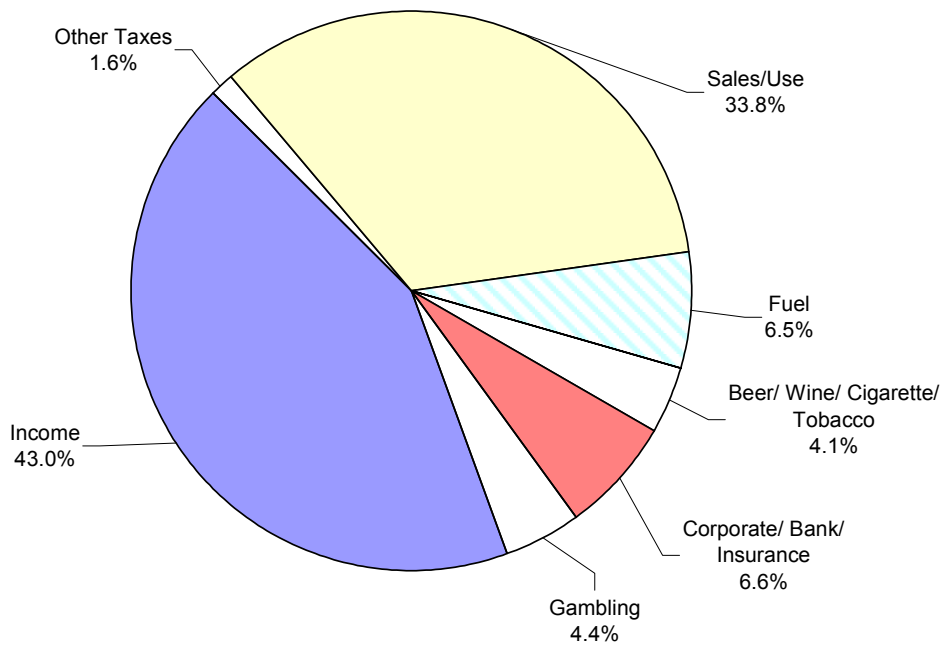
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending December 2008

**Net Revenue = \$6.684 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of December 2008</b>	<b>Month of December 2009</b>	<b>December \$ Change</b>	<b>December % Change</b>
Banking	\$ 32.3	\$ 29.2	\$ - 3.1	-9.6%	\$ 1.7	\$ 4.3	\$ 2.6	152.9%
Beer & Wine	20.8	21.1	0.3	1.4%	1.7	1.6	- 0.1	-5.9%
Cigarette & Tobacco	252.0	228.6	- 23.4	-9.3%	19.9	20.2	0.3	1.5%
Corporate Income	301.0	233.2	- 67.8	-22.5%	5.5	30.3	24.8	450.9%
Fuel	435.1	437.0	1.9	0.4%	40.1	41.9	1.8	4.5%
Gambling	296.3	288.9	- 7.4	-2.5%	24.9	23.6	- 1.3	-5.2%
Individual Income	2,875.4	2,688.7	- 186.7	-6.5%	210.9	226.2	15.3	7.3%
Inheritance	82.7	69.8	- 12.9	-15.6%	5.7	5.4	- 0.3	-5.3%
Insurance	108.2	79.0	- 29.2	-27.0%	0.2	0.0	- 0.2	-100.0%
Other Taxes	5.5	9.8	4.3	78.2%	0.5	0.8	0.3	60.0%
Real Estate Transfer	16.0	13.6	- 2.4	-15.0%	1.1	1.1	0.0	0.0%
Sales/Use	2,258.9	2,119.4	- 139.5	-6.2%	132.1	140.5	8.4	6.4%
<b>Total Net Taxes</b>	<b>\$ 6,684.2</b>	<b>\$ 6,218.3</b>	<b>\$ - 465.9</b>	<b>-7.0%</b>	<b>\$ 444.3</b>	<b>\$ 495.9</b>	<b>\$ 51.6</b>	<b>11.6%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,612.3	\$ 7,503.8	\$ - 108.5	-1.4%	\$ 541.1	\$ 564.4	\$ 23.3	4.3%
Tax Refunds	\$ - 928.1	\$ - 1,285.3	\$ - 357.2	38.5%	\$ - 96.9	\$ - 68.4	\$ 28.5	-29.4%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,723.0	\$ 5,286.7	\$ - 436.3	-7.6%	\$ 363.1	\$ 412.7	\$ 49.6	13.7%
Road Use Tax Fund	\$ 694.8	\$ 694.5	\$ - 0.3	0.0%	\$ 55.6	\$ 58.9	\$ 3.3	5.9%
Non-GF Gambling	\$ 234.4	\$ 221.3	\$ - 13.1	-5.6%	\$ 24.7	\$ 23.4	\$ - 1.3	-5.3%
Other State Funds	\$ 32.0	\$ 16.0	\$ - 16.0	-50.0%	\$ 0.8	\$ 1.0	\$ 0.2	25.0%
<b>Local Option Taxes *</b>	<b>\$ 747.7</b>	<b>\$ 786.6</b>	<b>\$ 38.9</b>	<b>5.2%</b>	<b>\$ 70.0</b>	<b>\$ 65.9</b>	<b>\$ - 4.1</b>	<b>-5.9%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

**Corporate Income Tax:** All corporate tax is deposited to the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** The first \$6.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund (increased to \$66.0 million beginning FY 2010). Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, and the Vision Iowa Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited to the State General Fund. A total of \$4.0 million per year is deposited to the Workforce Development Fund (\$4.0 million). An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited to the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited to the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changes beginning FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.